



Executive Summary

Indonesia Case Study:
Indonesia's Population Dynamics and Sustainable Development

Lead Author:
Emil Salim

Authors:
Sri Moertiningsih Adioetomo
Evi Nurvidya Arifin
Nizam
Alvin Pratama

EXECUTIVE SUMMARY

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Indonesia has made significant progress in many development fronts such as increases in access to education, improvements in health, and reduction of poverty. Despite its numerous achievements, Indonesia's development has yet to focus on sustainable development, or the balance of economic, social and environmental aspects. To date, Indonesia's development has placed a heavy emphasis on economic growth at the expense of other aspects of development which has created a widening of inequality, environmental degradation and poor access to decent jobs. These development trends have significantly changed Indonesia's population dynamics including population size, composition and distribution. Changes in population dynamics will have a profound impact on the country's development moving forward.

Looking ahead to 2030, three main demographic megatrends will emerge. First, Indonesia's large population will continue to increase but at a slowing down rate accompanied with rapid urbanization. Secondly, Indonesia is undergoing bonus demography, or internationally called Demographic Dividend, caused by the success in Family Planning Program that was able to reduce family size from five-six children in 1970's to only two-three children in the 2000s. This changes the population age structure to a higher percentage of working age population and followed by an ageing population. Finally, Indonesia will shift from a situation of population mobility to non-permanent mobility. Indonesia's version of Sustainable Development Goals (SDGs) are proposed in this study, with nine SDGs categorized into economic, social and environmental dimension. The economic dimension includes (1) promotion of growth for sustainable consumption and production; (2) promotion of decent jobs. The social dimension emphasizes on (3) reducing, or eliminating, capability deprivation with an aim to focus on poverty and disability; (4) reducing relative and absolute inequality, including gender inequality; (5) improving education and health, including Sexual and Reproductive Health and Family Planning. Finally, the environmental dimension focuses on ensuring (6-9) water, air, food and energy (WAFE) security. The enforcement of good governance and rule of law or justice will play a key role in achieving SDGs.

This study examines the link between population dynamics and sustainable development given the fact that Indonesia's population structure will drastically change post-2015. The working age population is projected to be around 140 million with a significantly lower dependency ratio than previous decades, and more than 60 percent of Indonesia's population living in urban areas. By utilizing a large working age population coupled with a low dependency ratio, Indonesia can strengthen its economy before it becomes an aging population while addressing critical issues such as the middle-income trap, rising inequality and the ASEAN Economic Community. Given such demographic conditions, Indonesia has a limited time to realize the benefits of a demographic bonus with the window of opportunity closing in 2040. Productivity growth is one of important links between population dynamics and sustainable development. Human capital investments and capacity building through knowledge management will play an important role in increasing productivity growth by stimulating creativity and innovation to enhance living standards and improve well-being.

The government needs to create a policy environment that supports formal, high productivity and decent job creation, ensures the relevancy of education and training to the labor market demand and continuously improves the skills of workers to enhance their competitiveness in the

labor market. An integrated, comprehensive and systematized industrial policy in Indonesia is needed as a means to nudge the diffusion of high productivity activities to the rest of economy. This will result in an inclusive, productivity-led, and sustainable growth that will reduce poverty and inequality. Furthermore, in formal education, Technical and Vocational High Schools (TVS) can be strengthened and linked closer with industry while in non-formal education, industry-certified non-formal trainings should be developed to upgrade a large existing majority workers that have only a primary school educational attainment. The government can encourage industries and business sectors to develop training centers by providing financial incentives (e.g., tax deductions or exemptions) based on the number of workers absorbed or improvements in the workforce. In addition, higher education should produce graduates that meet the demand and to generate fresh innovation from its research that can contribute to economic development. These are among the many proposed recommendations listed in Chapter 5.

Indonesia is projected to experience an unprecedented growth of older persons, or those aged 60 and above, also referred to as the aging population. The number of older persons will reach around 41.0 million in 2030, almost twice as many as in 2015. However, the retirement age has remained around 55-58 years despite an increase in expectancy of life at birth to above 70 years. With the retirement age remaining at the current age, the government will incur additional costs given the longer retirement period together with life expectancy increases. Instead, the retirement age should be raised to reflect the improvement in life expectancy. Policies supporting an aging population will ensure older persons remain active and productive in the labor market, which in turn, can lead to increases in fiscal sustainability. As a result, the trend of an aging population can contribute to, rather than detract from, the achievement of Indonesia's sustainable development goals.

Significant changes are urgently needed to move away from a one-track development approach relying solely on economic growth, and toward a triple-track development strategy encompassing economic, social and environmental dimensions. Shifting to a more sustainable approach will ensure a more inclusive, productive, and environment friendly development path while taking full advantage of post-2015 population dynamics.

Overall, Indonesia's current population dynamics poses challenges as well as opportunities for sustainable development. Indonesia can choose to take advantage of the upcoming favorable population trends of a demographic bonus, urbanization, and ageing population to achieve sustainable development, however a constructive policy environment is needed to support this important transition. Faced with a limited window of opportunity, policymakers should take advantage of this momentum to establish the appropriate policy environment that will shape Indonesia's future toward sustainable development.

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